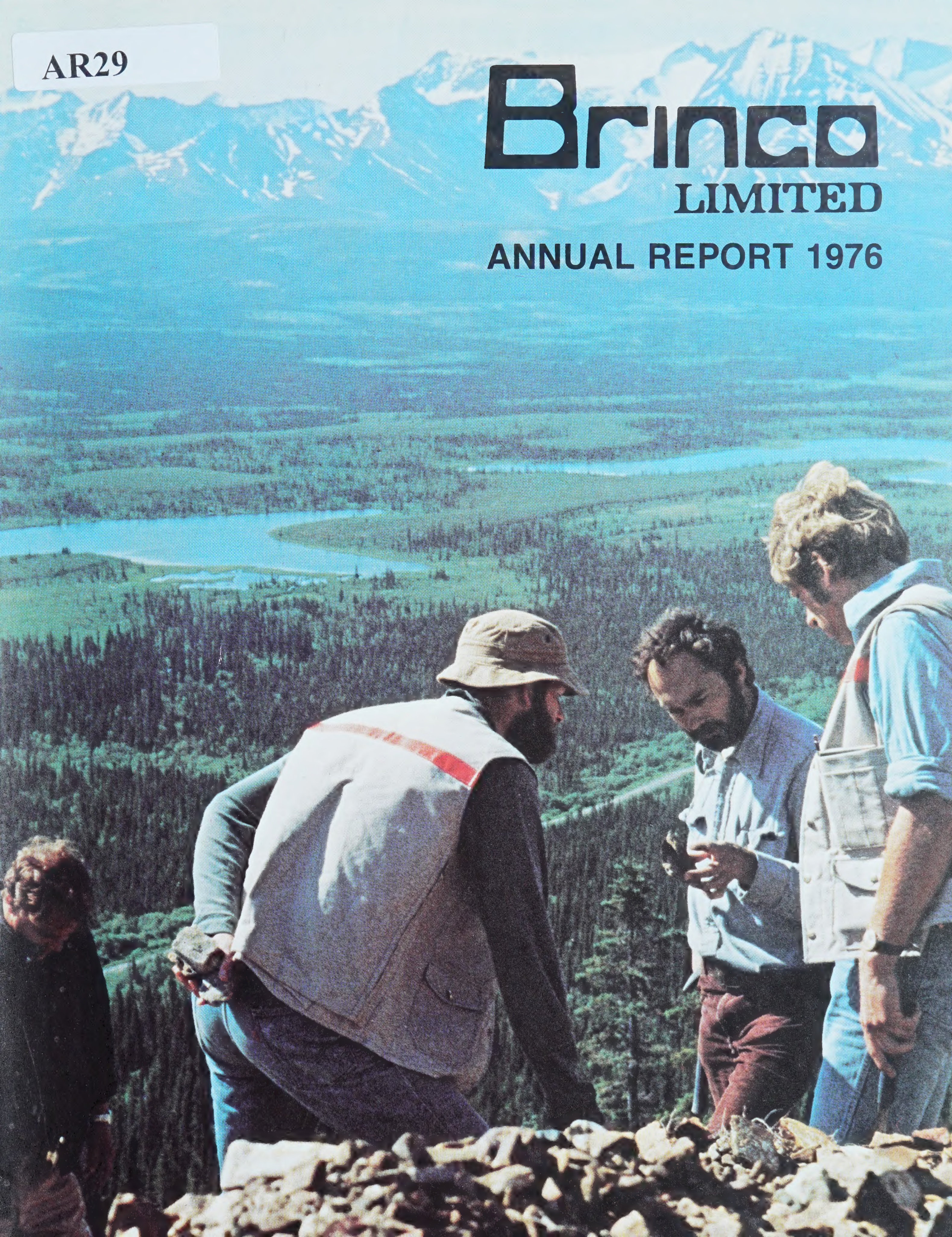
Brinco LIMITED

ANNUAL REPORT 1976



Directors and Officers

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Victoria, British Columbia

E. Jacques Courtois, Q.C.,
Montreal, Quebec
Partner,
Courtois, Clarkson,
Parsons & Tétrault

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Montreal, Quebec
President and
Chief Executive Officer,
Brinco Limited

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Montreal, Quebec
Chairman and
Chief Executive Officer,
Power Corporation
of Canada, Limited

Lewis W. Foy,
Bethlehem, Pa.
Chairman,
Bethlehem Steel Corporation

* Jean-Paul Gignac,
Montreal, Quebec
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Chief Executive Officer,
Sidbec-Dosco Limited

* Sam Harris,
New York, N.Y.
Partner,
Fried, Frank, Harris,
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Toronto, Ontario
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Chief Executive Officer,
Marubeni Corporation

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London, England
President,
N. M. Rothschild & Sons Limited

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St. John's, Newfoundland
Director,
Centre for Cold Ocean
Resources Engineering

* Sir Mark Turner,
London, England
Chairman and
Chief Executive,
The Rio Tinto-Zinc
Corporation Limited

* Member of the Executive Committee

Sir Mark Turner,
Chairman

D. R. De Laporte, P.Eng.,
President and
Chief Executive Officer

M. Y. el Baroudi, Ph.D.,
Vice-President

P. H. Grimley, Ph.D.,
Vice-President

N. M. Peters,
Vice-President and
General Counsel

J. P. Rixon, C.A.,
Vice-President,
Chief Financial Officer
and Treasurer

J. J. Goodchild, C.A.,
Comptroller

P. F. McDonald,
Secretary

Registered Office:
Suite 1101,
Royal Trust Building,
Water Street,
St. John's, Newfoundland
A1C 5J9

Executive Office:
One Westmount Square,
Montreal, Quebec
H3Z 2X5

Registrar and Transfer Agent:
The Royal Trust Company,
St. John's, Newfoundland;
Montreal, Quebec;
Toronto, Ontario

Shares Listed:
Montreal Stock Exchange
The Toronto Stock Exchange

Cover
Exploration in the Yukon
Photo Courtesy of
Haig Farris, Ventures West Capital Limited

Report of the Directors to the Shareholders

In the 1975 Report to the Shareholders, it was noted that Brinco had passed through a period of transition and that 1976 would see the Company oriented towards the development of natural resources. The activities of the Brinco companies in the past year have brought about substantial progress in this direction.

Brinco is conscious of the risks involved in mineral development. Wide swings in commodity prices, rapidly escalating capital costs, increased costs for environmental protection and the effect of increased government taxation and royalties all tend to create problems for the mineral industry. However, the industry is of prime importance to Canada and we feel that the good sense of the public will eventually restore a favourable climate for mining exploration and development.

Labrador Uranium

The most important program in 1976 related to the Labrador uranium project involving the Kitts and Michelin uranium deposits near Kaipokok Bay on the Labrador coast, roughly ninety miles northeast of Goose Bay. In March of 1976, a decision was made to proceed with a preliminary feasibility study. This study was completed in July and, on the basis of its findings and recommendations, it was decided to proceed with a detailed feasibility study. This study is now being conducted by engineering consultants whose reports are expected to be received in the second quarter of 1977. Concurrently, a comprehensive environmental impact statement is being prepared for consideration by governmental authorities, and marketing and financing arrangements are under discussion. Until all information has been received and evaluated, it would be premature to comment on the size, cost or profitability of the project.

It should be pointed out that an undertaking of this kind presents its own peculiar problems given the severe climate, isolated location and difficult topography of the area. In conjunction with the detailed feasibility study, and to make possible a full utilization of the period during 1977 when weather conditions can be expected to be favourable, certain preliminary site works were undertaken and completed during the latter half of 1976. This program of preliminary works which included expansion and upgrading of camp facilities, establishment of supply and maintenance facilities and construction of some connecting roads for access to monitoring locations, has provided new information of considerable value in the carrying out of the detailed feasibility study.

Your Company is particularly aware of the care which must be exercised in safeguarding the physical and social environment. If a production decision is made, the plant will be designed to meet the most stringent standards, to protect the health and safety of our employees, and the physical environment.

Under joint venture arrangements between Brinco's wholly-owned subsidiary, British Newfoundland Exploration Limited ("Brinex"), and Urangesellschaft Canada Limited ("Urangesellschaft"), covering these deposits, exploration and development costs are shared equally, and if application should be made for a mining lease, Urangesellschaft will have earned a 40% interest, Brinex retaining the remaining 60%.

Abitibi Asbestos

Brinco now holds approximately 60% of the outstanding shares of Abitibi Asbestos Mining Company Limited ("Abitibi"). In July 1976, Brinco, Abitibi and Lake Asbestos of Quebec Ltd., a wholly-owned subsidiary of Asarco Inc. of New York, began discussions concerning the possibility of reaching satisfactory commercial arrangements which could lead to joint development of Abitibi's "A" deposit near Amos, Quebec. These talks are still in progress.

The declared interest of the Government of Quebec in the asbestos industry has created a new area of uncertainty. Discussions have been held with governmental authorities and it is hoped that the government will clarify its position with respect to the industry generally, and the Abitibi deposits in particular without undue delay. Brinco's right to work on the Abitibi property expired in July 1976 and

Brinco's present relationship with Abitibi is essentially that of a major shareholder. Brinco continues to provide Abitibi with general administration and management services under the terms of a management agreement.

Washington State Zinc

Union Holdings Incorporated ("Union"), Brinco's wholly-owned United States subsidiary, has a 25.5% interest in a zinc property located 90 miles northwest of Spokane in the State of Washington. Other participants are Callahan Mining Corporation (49%) and a subsidiary of United States Borax and Chemical Corporation (25.5%).

The mineralized zone is estimated to contain 7.5 million tons with a combined lead-zinc grade of 4.3 percent, mainly zinc. The preliminary feasibility report is currently under review by the partners. The concept being considered calls for the rehabilitation and expansion of an existing mill, repair of other facilities, and development of an underground mine to yield approximately 700,000 tons of ore per annum.

The 80-man Long Point Creek Camp, Kaipokok Bay, Labrador.

General Exploration

Through Brinex and Union, Brinco has directed its exploration efforts primarily towards the search for uranium, zinc and copper. Exploration was carried out in a number of provinces, the Yukon Territory and the United States. Nevertheless, a significant portion of Brinco's exploration expenditures continued to be made on the remaining concession areas which your Company holds in Newfoundland and Labrador.

In the Yukon, Brinex, with an interest of approximately 47%, is the major participant in the Ogilvie Joint Venture. During the 1976 field season, the presence of lead-zinc mineralization was established over a strike length of 2,200 feet on claims held by the joint venture. Considerable difficulty was encountered in diamond drilling. Results to date, although encouraging, are insufficient to develop grade and tonnage estimates, and more work, including diamond drilling, is planned for the 1977 field season.

Tote Road from Long Point Creek to Three Rapids, Kaipokok Bay, Labrador.

In Labrador, exploration was concentrated in areas covered by the Brinex-Urangesellschaft joint venture. Field work during the summer months located several new areas of uranium mineralization and it is planned to conduct further exploration in these areas during 1977.

Union participated in a joint venture which explored for uranium in the southern United States. The program has delineated a number of interesting areas, and results have been sufficiently encouraging to continue this program during the current year.

Coseka Resources

Brinco's investment in Coseka arranged in 1973, took the form of direct investment in equity and the purchase of Coseka's Series "A" and Series "B" debentures in the amounts of $1,500,000 and $3,500,000 respectively. In August 1976, Brinco converted Coseka's Series "A" Debenture, thus increasing Brinco's holdings to approximately 18% of Coseka's outstanding shares. In January 1977, Brinco acquired further treasury shares of Coseka, pursuant to Brinco's right to maintain its equity interest, following the acquisition of Coseka shares by a drilling partner. Conversion of the Series "B" Debenture into shares of Coseka on the most favourable basis, prior to its maturity in August 1979, would increase Brinco's holdings in Coseka to approximately 29% of its outstanding shares.

Net earnings achieved by Coseka for the year ended July 31, 1976 were significantly higher than for the previous year, and this trend is continuing during its current fiscal year.

Coseka has carried out its drilling activities chiefly in Alberta, British Columbia and Saskatchewan, as well as in several areas of the United States.

Financial Results

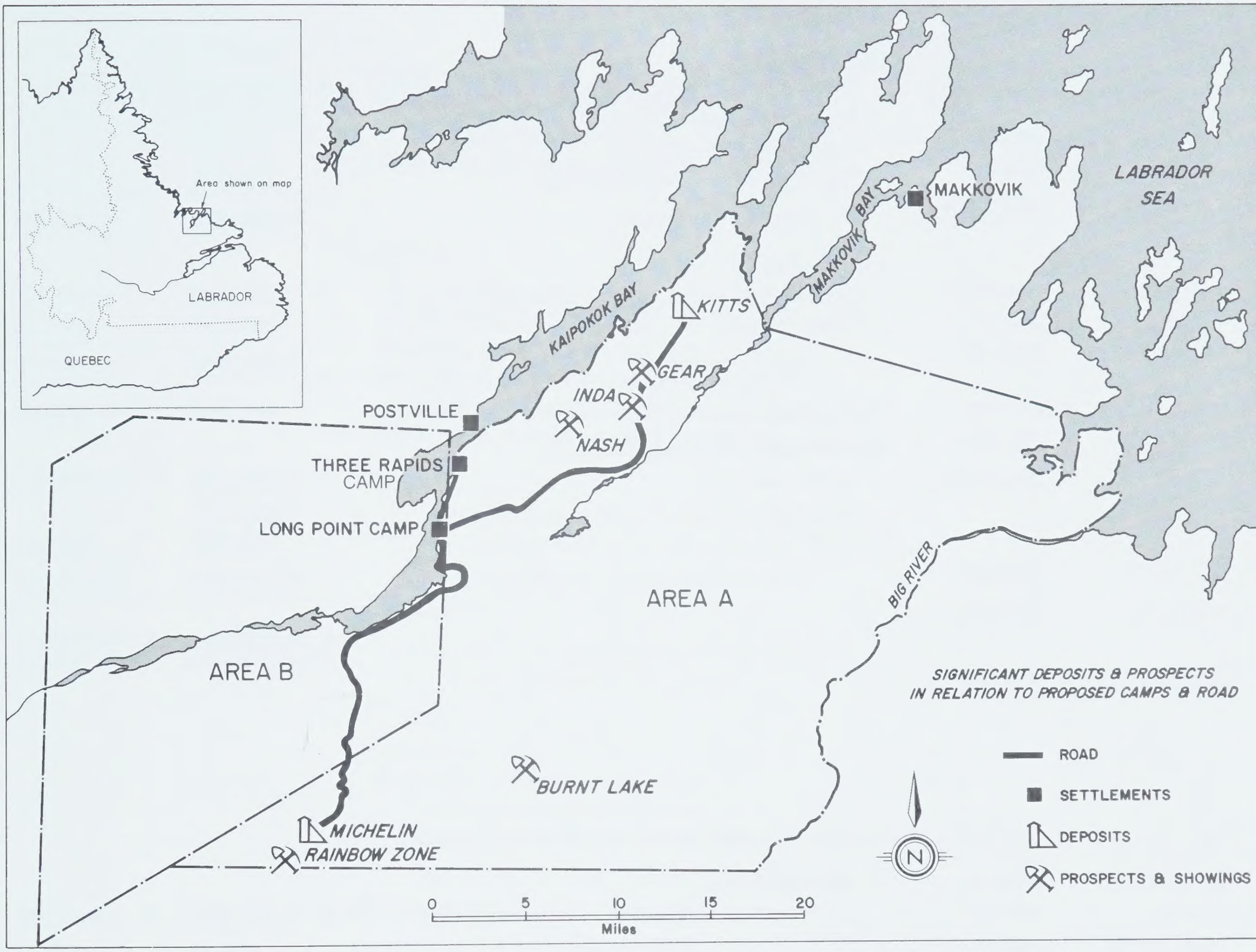
The consolidated net earnings for the year ended December 31, 1976 were $455,000 compared to a net loss of $2,231,000 for 1975. This improvement was due to increased income and significantly lower expenses. In 1975, the Company recorded substantial write-offs in project expenditures and in investment values, whereas the corresponding items for 1976 were considerably less. Since April 1976, expenditures with respect to the Kitts and Michelin Labrador uranium deposits have been considered project costs rather than exploration expenditures resulting in decreased amounts charged to exploration expenses for 1976.

Working capital at December 31, 1976 had decreased to $52,525,000 from $54,686,000 at the end of 1975 due mainly to project expenditures of $3,638,000 for the year.

Mark Turner
Chairman

Donald R. De Laporte
President and Chief Executive Officer

February 24, 1977.



Brinex-Urangesellschaft joint venture areas A & B

Brinco LIMITED and subsidiaries

Consolidated Balance Sheet
as at December 31, 1976
(with comparative figures for 1975)

ASSETS	1976	1975
Current assets:		
Cash, short-term deposits and commercial notes	**$ 52,670,000**	$ 54,783,000
Accrued interest	**1,238,000**	793,000
Accounts receivable	**463,000**	611,000
Supplies and prepaid expenses	**189,000**	164,000
Total current assets	**54,560,000**	56,351,000
Investments:		
Coseka Resources Limited, at cost (note 2)	**7,121,000**	7,106,000
Other (note 3)	**210,000**	551,000
Total investments	**7,331,000**	7,657,000
Fixed assets (note 4)	**450,000**	423,000
Expenditures on projects (note 5):		
Abitibi asbestos	**13,006,000**	12,118,000
Labrador uranium	**3,094,000**	—
Other	**42,000**	300,000
Total expenditures on projects	**16,142,000**	12,418,000
	$ 78,483,000	$ 76,849,000

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,035,000**	$ 1,665,000
Deferred income taxes	**980,000**	470,000
Minority interest in subsidiary company	**3,473,000**	3,174,000
Shareholders' equity (note 6)	**71,995,000**	71,540,000
	$ 78,483,000	$ 76,849,000

On behalf of the Board:

Donald R. De Laporte, Director

E. Jacques Courtois, Director

See accompanying notes.

Consolidated Statement of Earnings and Retained Earnings

year ended December 31, 1976
(with comparative figures for 1975)

	1976	1975
Income:		
Income from short-term deposits and commercial notes	$ 5,181,000	$ 4,498,000
Income from Coseka Resources Limited	361,000	400,000
	5,542,000	4,898,000
Expenses:		
Administrative	1,799,000	1,840,000
Depreciation and amortization	135,000	109,000
Project expenditures written off	284,000	1,390,000
Exploration expenditures and other costs related to natural resources — net (note 7)	2,297,000	2,942,000
Provision for loss in value of investments (note 3)	128,000	897,000
	4,643,000	7,178,000
Earnings (loss) before income taxes, extraordinary item and minority interest	899,000	(2,280,000)
Income taxes	767,000	172,000
Net earnings (loss) before extraordinary item and minority interest	132,000	(2,452,000)
Extraordinary item:		
Reduction in income taxes due to utilization of exploration and other costs expensed in prior years	257,000	172,000
Net earnings (loss) before minority interest	389,000	(2,280,000)
Minority interest in loss of subsidiary	66,000	49,000
Net earnings (loss) (note 8)	455,000	(2,231,000)
Retained earnings at beginning of year	66,097,000	68,328,000
Retained earnings at end of year	$ 66,552,000	$ 66,097,000

See accompanying notes.

Brinco
LIMITED and subsidiaries

Consolidated Statement of Changes in Financial Position
year ended December 31, 1976
(with comparative figures for 1975)

	1976	1975
Source of funds:		
Net earnings (loss) before extraordinary item	$ 132,000	$ (2,452,000)
Items not affecting working capital during the year:		
Depreciation and amortization	135,000	109,000
Project expenditures written off	284,000	1,390,000
Provision for loss in value of investments	128,000	897,000
Deferred income taxes	767,000	172,000
Funds provided by operations	1,446,000	116,000
Proceeds from sale of investments	212,000	—
Total funds provided	1,658,000	116,000
Use of funds:		
Project expenditures:		
Abitibi asbestos	519,000	1,395,000
Labrador uranium	3,094,000	—
Other	25,000	245,000
Purchase of common shares	—	5,890,000
Other items — net	181,000	102,000
Total funds used	3,819,000	7,632,000
Decrease in working capital	2,161,000	7,516,000
Working capital at beginning of year	54,686,000	62,202,000
Working capital at end of year	$ 52,525,000	$ 54,686,000

See accompanying notes.

Notes to the Consolidated Financial Statements
as at December 31, 1976

1. Accounting Policies:

The financial statements have been prepared following accounting principles generally accepted in Canada.

The principal accounting policies of the Company and its subsidiaries are summarized hereunder.

Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. The active subsidiaries and the Company's ownership therein are as follows:

	Ownership	
	1976	1975
British Newfoundland Exploration Limited ("Brinex")	**100%**	100%
Union Holdings Incorporated	**100%**	100%
Abitibi Asbestos Mining Company Limited ("Abitibi")	**60%**	55%

Investments in Other Companies:

Investments in other companies are carried at cost, less amounts written off, where appropriate, until such time as the Company's holdings are deemed to constitute effective control, whereupon the equity method of accounting for the investment is adopted.

Exploration and Project Expenditures:

Exploration expenditures and costs related to the investigation of possible investments in natural resources are charged to income as incurred, net of recoveries from joint venture partners. Project expenditures are carried forward as assets so long as the projects are considered to be of value. The costs of such projects are written off in the event of abandonment or are subject to depreciation and amortization when the projects are put into operation.

Depreciation and Amortization:

Depreciation of fixed assets and leasehold improvements is provided generally on the straight line basis over the estimated service lives of the assets or terms of the leases. The costs of fixed assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the resulting gain or loss reflected in income or project costs as appropriate.

Income Taxes:

Tax allocation procedures are followed, except that no recognition is given in the accounts to the possible future tax reduction which may be realized through the

deduction in determining taxable income in future years of unclaimed amounts of depreciation, exploration and preproduction expenditures and losses available for carryforward. The reduction in income taxes resulting from the application of such unclaimed deductions and losses carried forward is reflected as an extraordinary item in the years in which the tax reduction is realized.

Foreign Exchange:

Current assets and liabilities arising in currencies other than Canadian dollars are translated at exchange rates in effect at balance sheet dates; all other assets, liabilities, revenues and expenses are translated at rates in effect at dates of transactions. Any gain or loss on exchange resulting from conversion or translation of foreign currency balances is reflected in the consolidated statement of earnings.

2. Investment in Coseka Resources Limited:

	1976	1975
1,272,728 Common Shares (1975 — 727,273)	**$3,500,000**	$2,000,000
$1,500,000 8% Convertible Debenture Series "A"	—	1,500,000
$3,500,000 8% Convertible Debenture Series "B" due July 1979	**3,500,000**	3,500,000
Acquisition costs	**121,000**	106,000
	$7,121,000	$7,106,000

During 1976 the Company converted the Series "A" debenture into 545,455 common shares of Coseka at $2.75 per share thereby increasing its interest in Coseka to 18.0%. The Series "B" debenture is convertible until maturity at the Company's option into common shares at $3.00 per share but, under certain circumstances, the conversion rate may increase to $3.50 per share after August 1977. If the Series "B" debenture is converted under the most favourable terms, this would result in the Company then owning approximately 29% of the outstanding voting shares of Coseka. The quoted market value of the investment in common shares of Coseka as at December 31, 1976 was $5,664,000 ($4.45 per share) and as at December 31, 1975 was $2,145,000 ($2.95 per share).

The Company has a right to participate in any equity financing by Coseka.

Subsequent to December 31, 1976, the Company acquired an additional 126,254 shares at a cost of $347,000. This purchase will not affect the Company's potential ownership percentage referred to above.

3. Other Investments:

	1976	1975
Investments, at cost	**$ 488,000**	$1,448,000
Provision for loss in value	**278,000**	897,000
	$ 210,000	$ 551,000
Quoted market value	**$ 110,000**	$ 801,000

4. Fixed Assets:

	1976	1975
Buildings and equipment, at cost	**$1,000,000**	$ 839,000
Leasehold improvements, at cost	**259,000**	257,000
	1,259,000	1,096,000
Accumulated depreciation and amortization	**813,000**	677,000
	446,000	419,000
Land, at cost	**4,000**	4,000
	$ 450,000	$ 423,000

5. Expenditures on Projects:

Abitibi Asbestos:

At March 1, 1976, the date of the latest estimate, the amount of all new funds that would be required to bring Abitibi's "A" asbestos deposit into commercial production, with an output of up to 220,000 tons of asbestos fibre per year, was in the order of $300 million. Discussions are in progress between Abitibi and a major asbestos producer concerning the possibility of reaching satisfactory commercial arrangements which could lead to development of the deposit.

Labrador Uranium:

The expenditures on the Labrador uranium project are net of recoveries from a partner.

6. Shareholders' Equity:

	1976	1975
Capital stock	**$ 75,953,000**	$ 75,953,000
Retained earnings	**66,552,000**	66,097,000
	142,505,000	142,050,000
Less cost of common shares purchased pursuant to the 1974 tender offer to shareholders	**70,510,000**	70,510,000
	$ 71,995,000	$ 71,540,000

(a) Common shares without nominal or par value authorized, issued and outstanding at December 31, were:

	1976	1975
Authorized	**35,000,000**	35,000,000
Issued and fully paid	**24,609,485**	24,609,485
Less held in treasury	**9,973,067**	9,973,067
	14,636,418	14,636,418

(b) During 1975, 200,000 common shares were set aside for issuance in accordance with provisions of the 1975 stock option plan but no options were granted in that year. As at December 31, 1976 options granted in 1976 were outstanding on 93,000 shares (including 38,500 to officers) at $4 per share exercisable until September 1, 1981.

7. Exploration Expenditures:

Exploration expenditures are net of recoveries from joint venture partners of $554,000 (1975 — $1,036,000).

8. Earnings (Loss) per Share:

	1976	1975
Net earnings (loss) per share before extraordinary item	**1.4¢**	(16.3¢)
Extraordinary item: Reduction in income taxes	**1.7¢**	1.2¢
Net earnings (loss) per share for the year	**3.1¢**	(15.1¢)

The calculation of net earnings (loss) per share has been made using the weighted average number of common shares outstanding, less shares held in treasury, during the respective years. There would be no material dilution of net earnings per share if the outstanding stock options were exercised.

9. Commitments:

(a) In 1953, the Government of Newfoundland and the Company entered into an agreement (the "Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies resulting from the operations of the concessions and rights retained under the Principal Agreement.

(b) At December 31, 1976, Brinex had commitments relating to the Labrador uranium project involving expenditures in 1977 of approximately $2,600,000.

10. Income Taxes:

For income tax purposes, the Company and its subsidiaries claim as deductions, depreciation and exploration and development expenditures sufficient to offset income which would otherwise be taxable. As at December 31, 1976 depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by $15,000,000. Also, the Company and its subsidiaries have unclaimed earned depletion allowances of $7,000,000 which are available for offset against future resource profits.

In addition, the Company and its subsidiaries have business losses of approximately $2,000,000 and capital losses of approximately $2,000,000 carried forward for income tax purposes.

11. Remuneration of Directors and Senior Officers:

The aggregate direct remuneration paid or payable for the year by the Company and its subsidiaries to the directors and senior officers amounted to $545,000 ($967,000 in 1975). Included in this amount is $111,000 with respect to severance pay and bonuses paid in 1976 ($492,000 in 1975) but provided for in the accounts in 1974.

12. Anti-Inflation Legislation:

The Company is subject to anti-inflation legislation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Brinco Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Quebec
February 24, 1977